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SUBJECT: INSIGHTS INTO OMAN'S GENERAL RESERVE FUND

[1](#)1. (U) This cable contains business proprietary information; please protect.

SUMMARY

[1](#)2. (SBU) A royal official working for the State General Reserve Fund recently revealed to a private sector investment broker rare insights into the investment habits of the SGRF. A quarter of the SGRF's assets are in cash and short-term equities, set aside for when the government needs to bridge budget deficits. The other three-fourths of the Fund are invested in an impressive array of longer-term instruments, revealing a savvy strategy on the Fund's part. While the Fund employs some Western-based financial consultants, it relies on in-house expertise for much of its work. End summary.

Background

[1](#)3. (SBU) As with most rentier economies, decades ago the Omani government established a "rainy day" fund for excess deposits of windfall revenues and as a source to tap when state revenues cannot cover budget deficits. Royal Decree 80/1 established the State General Reserve Fund (SGRF) as a public legal entity in 1980. The powerful, inter-ministerial Financial Affairs and Energy Resources Council regulates the SGRF. In fact, Minister of National Economy Ahmed Abdalnabi Macki is in day-to-day charge of both the Council and the Ministry of Finance that administers it. Minister Macki is also the official responsible for announcing when the government will borrow from the SGRF to cover budget deficits, as he did on June 13, 2005, citing falling petroleum production and a number of ongoing development projects.

[1](#)4. (SBU) The inner workings of the SGRF and its sister institutions in neighboring states remain far outside the public's view. An expatriate investment broker, however, recently shared valuable insights into Oman's SGRF based on his recent meeting with Sayyida Rawan bint Ahmed al-Said (protect), Director of Research at SGRF and cousin to Sultan Qaboos.

A Tale of Two Portfolios

[1](#)5. (SBU) The State General Reserve Fund, according to Sayyida Rawan, receives the "overage" above the oil price used to estimate the government's annual budget. (The exact formula is more complex, she indicated, but did not elaborate.) Given the historically high oil prices and the government's conservative estimation of those prices in formulating this year's budget (the understated \$23 per barrel, albeit with somewhat rosy production estimates), the SGRF at present has significant sums to fit into its ever-evolving asset allocation.

[1](#)6. (SBU) According to Sayyida Rawan, the SGRF runs two different portfolios with different time horizons. The first, perhaps accounting for 75 percent of the undisclosed total, is a long-term portfolio for "the benefit of future generations." The other, accounting for the remaining 25 percent, is kept in cash and fixed-income instruments with a maximum maturity of about 3 years, and a minimum AA credit rating. That second portfolio is intended for the partial relief of any budgetary shortfalls that may occur for the Sultanate.

[1](#)7. (SBU) The larger of the two portfolios is perhaps the more interesting since it contains intermediate and long-term fixed income portfolios, equity investments (mostly large capitalization stocks using the MSCI global equities index as benchmark), alternatives (private equity, hedge funds, currency funds, et al.) and both direct and indirect (via funds, REIT's) real estate holdings.

Outside Advice, In-House Expertise

18. (SBU) The SGRF's investment strategy struck the expatriate investment broker as impressively sophisticated, duly reflective of how conscious the SGRF is of its responsibility to the Omani public. The SGRF uses investment management consultants (e.g. Cambridge Associates in Boston, and Frank Russell & Co. of Tacoma, WA) for specialized and limited mandates and for databases. The Fund does its own asset allocation modeling and manager search and performance measurement. The SGRF increasingly manages fixed-income assets for both portfolios in-house, except for some specialty mandates. According to Sayyida Rawan, the SGRF has managed cash instruments and bonds since 1988, so they feel they have developed sufficient in-house expertise.

BALTIMORE